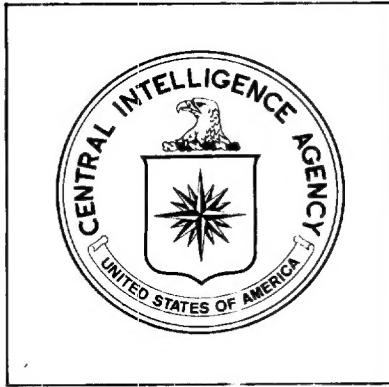


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**Middle East
Africa
South Asia**

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129

No. 0683/75
May 30, 1975

No Foreign Dissem/Controlled Dissem

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of E. O. 11652, exemption category:

§ 5B (1), (2), and (3)

Automatically declassified

on: Date Impossible to Determine

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MIDDLE EAST – AFRICA – SOUTH ASIA

This publication is prepared for regional specialists in the Washington community by the Middle East - Africa Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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~~SECRET~~Egypt*Financial Problems*

President Sadat needs at least \$500 million in new aid to finance a prospective current-account deficit and to repay long-term loans that come due in 1975. If he does not get the money, he faces some painful adjustments. Cairo cannot cut back on debt repayment without jeopardizing new credit in the West and military support in the East; Cairo may therefore be forced to slash imports to pre-1973 levels during the last half of 1975 to balance accounts for the year.

Last year, Egypt's bill for imports doubled in comparison to the years before the 1973 war because of higher prices and increased volume. Arab aid and Egypt's foreign exchange earnings paid for these imports until the fall of 1974. Deepening depression in the West then sharply reduced demand for cotton and Egypt's other luxury-oriented exports and, at the same time, the sums promised Egypt by Arab leaders at the Rabat conference were not forthcoming.

At the end of 1974 Egypt's balance-of-payments gap stood at about \$250 million. It was financed by short-term borrowing because the government was unwilling to enforce austerity on a population whose living standards were below mid-1960 levels. During early 1975, Cairo continued to borrow, increasing short-term obligations due before the end of next month to more than \$1 billion.

the international banking community probably is prepared to refinance short-term obligations that cannot be paid, but interest rates and other penalties are rising as Egypt's credit rating falls. The government, accordingly, is postponing some repayments, hoping to secure the new aid required to discharge its short-term obligations and support imports at current levels for the rest of the year.

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Sadat is relying heavily on the possibility that an Arab summit, now scheduled for June, will provide Egypt grant aid. If the summit fails to come across, Sadat may still be able to obtain additional cash from Saudi Arabia. Faysal's death and the advent of new Saudi leadership have created considerable uncertainty, however, particularly as to the conditions that might be attached.

No assistance can be expected from the USSR, whose insistence on higher debt repayments may create a substantial flow of funds out of Egypt. Accordingly, Sadat may have to depend heavily on the West and such relatively new sources as Iran. (SECRET NO FOREIGN DISSEM)



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Kenya

Kenyatta Gets Tough With His Critics

4 President Jomo Kenyatta and his top advisers are bracing for possible trouble on Sunday, a major holiday on which the President is scheduled to address a large crowd in Nairobi. On the few occasions in recent months when Kenyatta has risked public appearances in the capital he has been treated with quiet hostility. The hard-pressed Kenyatta's troubles may increase later in the week when the parliamentary committee investigating the murder of regime critic J. M. Kariuki is expected to issue its report.

1 Kenyatta's chances for getting over these two hurdles appear to have improved recently, however. Throughout the month of May Kenyatta and his aides have made a concerted effort to demonstrate that the President holds the reins of power and still enjoys popular support. Publicity has been given to meetings he has had with numerous delegations of officials pledging loyalty. Politicians from the President's southern branch of the Kikuyu tribe have been holding rallies in provincial towns at which Kenyatta's parliamentary critics have been denounced as rogues undermining the country's independence. On May 24 and 26 Kenyatta used tough police measures against anti-government students at the University of Nairobi and then closed down the university. Organized labor has been at least temporarily pacified by a wage increase, announced in early May.

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Some committee members have responded to the pressure on them by urging a tough final report. Other members fear such a report would cause Kenyatta to take reprisals against them, or even to disband parliament. (SECRET NO FOREIGN DISSEM/CONTROLLED DISSEM)



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~~SECRET~~India-Pakistan*Nuclear Treaty Proposals*

1 Continuing Pakistani uneasiness about India's nuclear intentions led Islamabad to propose, at bilateral talks in mid-May that New Delhi join its South Asian neighbors in a multilateral declaration affirming the intention of the parties to use nuclear energy for peaceful purposes only. India reacted unfavorably to the proposal, claiming only Pakistan is dissatisfied with India's oft-repeated statement to this effect.

2 Nonetheless, the Indians counter-offered to negotiate with Pakistan a bilateral treaty that would contain a self-denying nuclear weapons declaration. New Delhi suggested this could be accomplished either as part of a broad non-aggression pact between the two states--a long-standing Indian proposal that is unacceptable to Pakistan--or in a special treaty limited to the question of nuclear weapons. The latter would be no more than a reaffirmation of Prime Minister Gandhi's assurances to Prime Minister Bhutto conveyed in a letter sent shortly after India exploded a nuclear device in May 1974.

1 Each side agreed to consider the other's proposal, but clearly the next move is up to Islamabad. Pakistan, as the weaker of the two countries, usually seeks to internationalize its problems with India while New Delhi tries to keep matters on a bilateral basis. The Pakistanis reportedly intend to lobby for regional support for their multilateral proposal; they hope to receive a favorable response at least from Sri Lanka and Nepal. It seems likely, however, that most South Asian governments will be wary of being drawn into a move that could strain their relations with India, though they may privately share Pakistan's suspicions about India's nuclear intentions.

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Pakistan-Bangladesh

Modest Progress Possible on Bihari Issue

1 Pakistan is considering plans for absorbing up to 30,000 more of Bangladesh's unwanted Biharis, or non-Bengalee Muslims. The two countries, nonetheless, remain far apart on the Bihari issue, as well as on the complex problem of how to divide the assets and liabilities of Pakistan before its east wing became independent Bangladesh in 1971.

2 Dacca has long claimed that Pakistan should accept several hundred thousand Biharis who sided with Islamabad during the Bengalees' independence struggle and have since expressed a preference to migrate to Pakistan. Many of these people have been living in isolated enclaves where conditions are even worse than elsewhere in Bangladesh. Pakistan so far has reluctantly accepted around 140,000 Biharis but is not anxious to take on many more. Most are destitute and lack skills needed in Pakistan.

1 The additional transfers now under consideration in Islamabad probably will not occur before autumn, if at all. Pakistani officials say there will be no room for these refugees until some 40,000 Biharis now living in Pakistani refugee camps can be resettled in new housing. Moreover, although Prime Minister Bhutto voiced some willingness in February to discuss additional transfers, he apparently expects Bangladesh to propose talks on the matter. Dacca, however, appears reluctant to take the initiative.

2 Although there has been progress in apportioning debts owed to third countries, the problem of dividing assets and other liabilities appears even more complicated and intractable than the Bihari question. Because of the lack of progress on these two issues, other aspects of relations between Pakistan and Bangladesh have remained frozen; they have not followed up their formal recognition of each other last year by

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2. establishing diplomatic ties or direct trade links. Their stalemate has in turn affected major power relationships in the area. Peking, Islamabad's principal big-power supporter, has not yet established relations with Dacca and consequently has not been able to challenge Indian and Soviet influence in Bangladesh. (CONFIDENTIAL)



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